

Day Kimball Healthcare, Inc.

Independent Auditors' Report,
Consolidated Financial Statements and
Supplemental Information

As of and for the Years Ended
September 30, 2011 and 2010



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

To the Board of Directors of
Day Kimball Healthcare, Inc.:

We have audited the accompanying consolidated balance sheets of Day Kimball Healthcare, Inc. (the Hospital) a Connecticut not-for-profit, non-stock corporation, as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Day Kimball Healthcare, Inc. as of September 30, 2011 and 2010, and the results of its consolidated operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

November 17, 2011

Day Kimball Healthcare, Inc.
Consolidated Balance Sheets
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,768,481	\$ 8,007,201
Certificates of deposit	431,617	125,000
Short-term investments	8,105,664	8,174,896
Accounts receivable (less allowance for doubtful accounts of \$3,482,663 in 2011 and \$4,140,663 in 2010)	12,857,684	10,719,236
Accounts receivable, other	560,121	75,452
Pledges receivable, current portion	252,099	-
Inventories and prepaid expenses	2,457,926	2,103,446
Assets whose use is limited:		
Funds held under bond indenture agreement	431,679	233,000
Total current assets	<u>27,865,271</u>	<u>29,438,231</u>
Assets whose use is limited:		
Funds held under bond indenture agreement	1,292,238	1,292,303
Funds held under bond reserve fund	454,055	453,919
Pledges receivable, net of current portion	863,114	-
Funds held in trust by others	3,774,294	3,905,024
Donor restricted investments	3,330,037	3,068,136
Board restricted investments	6,309,494	6,533,539
	<u>16,023,232</u>	<u>15,252,921</u>
Investments in real estate	263,828	277,565
Deferred financing costs, net	618,684	696,283
Property, plant and equipment, net	<u>36,609,993</u>	<u>31,997,469</u>
Total assets	<u><u>\$ 81,381,008</u></u>	<u><u>\$ 77,662,469</u></u>
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ 340,000	\$ -
Accounts payable	5,143,344	3,335,293
Salaries and wages payable	1,435,733	1,016,316
Employee benefits payable	3,156,267	3,470,292
Due to third-party payers	165,119	1,308,122
Other liabilities	1,639,115	1,885,215
Current portion of pension liability	3,662,028	3,306,179
Current portion of long-term debt	752,175	560,000
Total current liabilities	<u>16,293,781</u>	<u>14,881,417</u>
Long-term debt, less current portion	17,263,764	14,691,107
Pension and other liabilities	<u>29,499,800</u>	<u>28,880,608</u>
Total liabilities	<u>63,057,345</u>	<u>58,453,132</u>
Net assets:		
Unrestricted	10,104,119	12,241,312
Temporarily restricted	4,589,323	3,250,700
Permanently restricted	3,630,221	3,717,325
Total net assets	<u>18,323,663</u>	<u>19,209,337</u>
Total liabilities and net assets	<u><u>\$ 81,381,008</u></u>	<u><u>\$ 77,662,469</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Net revenues from services to patients	\$ 115,157,319	\$ 107,034,385
Other operating revenues	3,223,578	2,193,993
Grant income	949,866	985,539
Assets released from restrictions for operations	320,636	313,275
Total operating revenues	<u>119,651,399</u>	<u>110,527,192</u>
Operating expenses:		
Ancillary and physician services	41,658,850	36,194,265
Nursing services	23,567,308	22,317,333
Employee benefits and insurance	19,803,535	17,004,267
Fiscal services	8,772,638	8,066,842
General services	7,468,087	7,128,089
Administrative services	5,568,498	4,952,112
Homecare	5,196,012	5,047,930
Depreciation	4,608,128	4,454,960
Bad debts	3,528,349	3,380,034
Interest and amortization	995,291	849,815
Total operating expenses	<u>121,166,696</u>	<u>109,395,647</u>
(Loss) gain from operations	(1,515,297)	1,131,545
Non-operating gains	<u>1,333,404</u>	<u>607,272</u>
(Deficiency) excess of revenues over expenses	<u><u>\$ (181,893)</u></u>	<u><u>\$ 1,738,817</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
(Deficiency) excess of revenues over expenses	\$ (181,893)	\$ 1,738,817
Pension related changes other than net periodic pension cost	(1,124,839)	(6,019,561)
Change in unrealized (losses) gains on investments	(1,039,664)	429,051
Assets released from restrictions for property, plant and equipment	<u>209,203</u>	<u>704,303</u>
Change in unrestricted net assets	(2,137,193)	(3,147,390)
Temporarily restricted net assets:		
Contributions	1,894,638	382,611
Net realized and unrealized gains on investments	17,450	85,793
Change in funds held in trust by others	(43,626)	88,090
Assets released from restrictions	<u>(529,839)</u>	<u>(1,017,578)</u>
Change in temporarily restricted net assets	1,338,623	(461,084)
Permanently restricted net assets:		
Change in funds held in trust by others	<u>(87,104)</u>	<u>82,558</u>
Change in permanently restricted net assets	(87,104)	82,558
Change in net assets	(885,674)	(3,525,916)
Net assets at beginning of year	<u>19,209,337</u>	<u>22,735,253</u>
Net assets at end of year	<u><u>\$ 18,323,663</u></u>	<u><u>\$ 19,209,337</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating activities and non-operating gains and losses:		
Change in net assets	\$ (885,674)	\$ (3,525,916)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities and non-operating gains and losses:		
Depreciation and amortization	4,699,464	4,546,293
Provision for bad debts	3,528,349	3,380,034
Realized gains from sales of investments	(996,759)	(209,507)
Change in funds held in trust by others	130,730	(170,648)
Pension related changes other than net periodic pension cost	1,124,839	6,019,561
Restricted contributions and investment income	(1,912,088)	(468,404)
Changes in operating assets and liabilities:		
Accounts receivable	(5,666,797)	(2,901,327)
Accounts receivable, other	(484,669)	152,687
Pledges receivable	(1,115,213)	-
Inventories and prepaid expenses	(354,480)	(621,244)
Accounts payable	1,808,051	(400,333)
Salaries and wages payable	419,417	(600,919)
Employee benefits payable	(314,025)	(623,589)
Due to third-party payers	(1,143,003)	(1,897,596)
Other liabilities	(395,898)	(606,120)
Net cash (used in) provided by operating activities and non-operating gains and losses	(1,557,756)	2,072,972
Investing activities:		
Additions to property, plant and equipment	(9,220,652)	(10,934,250)
Sales of investments, net	1,028,135	2,539,179
(Purchases) sales of certificates of deposit, net	(306,617)	2,416,422
Change in funds held under bond agreements	(198,750)	372,613
Net cash used in investing activities	(8,697,884)	(5,606,036)
Financing activities:		
Proceeds from restricted contributions and restricted investment income	1,912,088	468,404
Borrowings on construction loan	3,324,832	1,631,107
Borrowings on line of credit	340,000	-
Principal payments on long-term debt	(560,000)	(530,000)
Net cash provided by financing activities	5,016,920	1,569,511
Change in cash and cash equivalents	(5,238,720)	(1,963,553)
Cash and cash equivalents at beginning of year	8,007,201	9,970,754
Cash and cash equivalents at end of year	<u>\$ 2,768,481</u>	<u>\$ 8,007,201</u>

The accompanying notes are an integral part of these consolidated financial statements.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 1 - General

Organization - Day Kimball Healthcare, Inc., (d/b/a Day Kimball Hospital) (the Hospital) is a voluntary, tax-exempt association incorporated under the General Statutes of the State of Connecticut. The Hospital has two subsidiaries, Day Kimball Homemakers, Inc. (Homemakers) and Physician Services of Northeast Connecticut, LLC (Physician Services). Physician Services began operations on July 13, 2008.

The Hospital provides inpatient, outpatient and emergency care services for residents of northeastern Connecticut. Homemakers provides homemaker and chore companion services to residents of northeastern Connecticut. Physician Services provides primary care and surgical services in northeastern Connecticut.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Hospital and its subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. Unlimited coverage on non-interest bearing accounts extends until December 31, 2012. It is the Hospital's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Hospital maintains cash balances in excess of the FDIC insurance limit.

Inventories - Inventories, used in general operations of the Hospital, are stated using the first-in first-out method.

Deferred Financing Costs - Deferred financing costs have been recorded as an asset and are being amortized using the effective interest method over the term of the related financing agreement. Amortization expense on deferred financing costs was \$77,597 and \$90,174 for the years ended September 30, 2011 and 2010, respectively.

Property, Plant and Equipment - Property, plant and equipment is recorded on the basis of cost or, if received as a donation or bequest, at the fair market value on the date received. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives.

Investments - The Hospital's investment portfolio is classified as available for sale, with unrealized gains and losses excluded from (deficiency) excess of revenues over expenses, unless the losses are deemed to be other than temporary. Investments in equity securities with readily determinable fair values and all investments in debt securities and mutual funds are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the (deficiency) excess of revenues over expenses, unless the income or loss is restricted by donor or law.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

The investment return is comprised of operating interest, dividends and realized gains and losses on unrestricted investments, which are included within other operating revenues and non-operating gains on the consolidated statements of operations and changes in net assets. Investment income generated by funds held in trust by others is included within non-operating gains in the consolidated statements of operations and changes in net assets.

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with FASB ASC 320-10 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2011 or 2010.

Estimated Malpractice Costs - The Hospital maintains a claims-made medical malpractice policy. The Hospital has recorded a reserve for estimated medical malpractice claims incurred but not reported. The Hospital had utilized the services of an independent consulting actuary to estimate the reserve for estimated incurred but not reported medical malpractice claims, however, has since estimated this liability based on internal reporting.

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose and are included within assets whose use is limited. Temporarily restricted net assets are available primarily for health care services, including cancer and pediatric programs and capital replacement.

Permanently restricted net assets consist of the Hospital's permanently restricted endowments, which are included in donor restricted endowment and in funds held in trusts by others. Permanently restricted endowments are investments to be held in perpetuity, the income from which is expendable to support health care services. The income from permanently restricted funds held in trust by others is expendable to support health care services.

Donor Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets, as net assets released from restrictions.

(Deficiency) Excess of Revenues Over Expenses - The consolidated statements of operations and changes in net assets includes (deficiency) excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from (deficiency) excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, assets released from restrictions for purchase of property, plant and equipment and certain changes in pension liabilities.

Non-Operating Gains - Activities other than in connection with providing health care services are considered to be non-operating. Non-operating gains consist primarily of income on board restricted endowment funds and income from funds held in trust by others.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income Taxes - The Hospital and Homemakers are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. Physician Services is a limited liability company and the effect of its tax activities accrue to its sole member, which is the Hospital.

The Hospital accounts for uncertain tax positions with provisions of FASB ASC 740, “*Income Taxes*” which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as September 30, 2011 and 2010. As of September 30, 2011 and 2010, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital’s prior three tax years are open and subject to examination by the Internal Revenue Service.

New Accounting Pronouncements - In January 2010, the FASB issued guidance that clarifies and requires new disclosures about fair value measurements. The clarifications and requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2, as well as significant transfers in and out of Level 3 of the fair value hierarchy, is effective for interim and annual reporting periods beginning after December 15, 2009. The new guidance also requires that purchases, sales, issuances and settlements be presented gross in the Level 3 reconciliation and that requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it did not impact the Hospital’s financial position, results of operations or cash flows.

In August 2010, the FASB issued Accounting Standards Updated (ASU) No. 2010-23, “*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*”. ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. The adoption of this new guidance is effective for the Hospital beginning October 1, 2011.

In August 2010, the FASB issued ASU No. 2010-24, “*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*”. ASU No. 2010-24 is intended to address current diversity in practice to the accounting by healthcare entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. Most healthcare entities have netted anticipated insurance recoveries against the related accrued liability, although some entities have presented the anticipated insurance recovery and related liability on a gross basis. The existing guidance does not permit offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. This update clarifies that a healthcare entity should not net insurance recoveries against related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of this new guidance is effective for the Hospital beginning October 1, 2011.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies (continued)

In July 2011, the FASB issued ASU No. 2011-07, “*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*”, which requires a healthcare entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity’s policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. The adoption of ASU 2011-07 is effective for the Hospital beginning October 1, 2012.

Subsequent Events - Subsequent events have been evaluated through November 17, 2011, the date through which procedures were performed to prepare the consolidated financial statements for issuance. Management believes there are no subsequent events having a material impact on the consolidated financial statements.

Note 3 - Revenues from Services to Patients and Charity Care

The following summarizes net patient service revenues for the year ended September 30, 2011:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Gross revenues from services to patients	\$ 183,998,961	\$ 1,446,272	\$ 10,852,495	\$ 196,297,728
Deductions:				
Allowances	77,571,223	-	3,541,717	81,112,940
Connecticut uncompensated care pool	(419,050)	-	-	(419,050)
Charity care	446,519	-	-	446,519
	<u>77,598,692</u>	<u>-</u>	<u>3,541,717</u>	<u>81,140,409</u>
Net revenues from services to patients	<u>\$ 106,400,269</u>	<u>\$ 1,446,272</u>	<u>\$ 7,310,778</u>	<u>\$ 115,157,319</u>

The following summarizes net patient service revenues for the year ended September 30, 2010:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Gross revenues from services to patients	\$ 168,847,093	\$ 1,344,972	\$ 7,505,486	\$ 177,697,551
Deductions:				
Allowances	67,333,858	-	2,468,027	69,801,885
Connecticut uncompensated care pool	(529,980)	-	-	(529,980)
Charity care	1,391,261	-	-	1,391,261
	<u>68,195,139</u>	<u>-</u>	<u>2,468,027</u>	<u>70,663,166</u>
Net revenues from services to patients	<u>\$ 100,651,954</u>	<u>\$ 1,344,972</u>	<u>\$ 5,037,459</u>	<u>\$ 107,034,385</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 3 - Revenues from Services to Patients and Charity Care (continued)

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most third-party payers are different from established billing rates of the Hospital and these differences are accounted for as contractual allowances.

Net revenues from services to patients are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments from cost reports with third-party payers. Cost report adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. During 2011, approximately 30% of net revenues from services to patients were received under the Medicare program, 14% under the Medicaid and town programs, and 22% from Blue Cross. During 2010, approximately 30% of net revenues from services to patients were received under the Medicare program, 13% under the Medicaid and town programs, and 21% from Blue Cross.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service and contractual payments to the Hospital for certain covered services based upon discounted fee schedules.

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized poverty income levels for the State, but also includes certain cases where incurred charges are significant when compared to incomes. These charges are not included in net revenues from services to patients for financial reporting purposes.

Note 4 - Investments

The Hospital has investments whose use is limited, which are carried on the consolidated balance sheets within funds held in trust by others, funds held under bond indenture agreement, funds held under bond reserve fund, donor restricted endowments and board restricted endowments. The composition of these assets consists primarily of cash, fixed income and equity investments. The funds held in trust by others were \$3,774,294 and \$3,905,024 as of September 30, 2011 and 2010, respectively.

The funds held under bond reserve fund as of September 30, 2011 and 2010 were \$454,055 and \$453,919, respectively. This fund was established as a result of the Hospital not meeting certain 2008 debt covenants of the bond insurer. The funds held under bond indenture agreement whose use is limited are \$1,723,917 and \$1,525,303 as of September 30, 2011 and 2010, respectively.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 4 - Investments (continued)

Short-term investments, donor restricted endowments and board restricted endowments as of September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 4,335,943	\$ 3,664,738
Equities	5,329,862	5,644,039
Mutual funds	4,643,038	4,316,338
Government securities	3,436,352	2,679,456
Certificates of deposit	-	1,472,000
	<u>17,745,195</u>	<u>17,776,571</u>
Less: donor restricted endowments	3,330,037	3,068,136
Less: board restricted endowments	<u>6,309,494</u>	<u>6,533,539</u>
Short-term investments	<u><u>\$ 8,105,664</u></u>	<u><u>\$ 8,174,896</u></u>

Investment income, which is included within other operating revenues and non-operating gains, is comprised of the following for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Income:		
Realized gains on sales of investments	\$ 996,759	\$ 209,507
Interest income	206,926	314,400
Non-operating interest and dividend income	<u>297,561</u>	<u>337,211</u>
Total investment return	<u><u>\$ 1,501,246</u></u>	<u><u>\$ 861,118</u></u>
Other changes in net assets:		
Unrealized gains on investments	<u><u>\$ (1,039,664)</u></u>	<u><u>\$ 429,051</u></u>

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2011:

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Equities	\$ 3,900,495	\$(624,115)	\$ 1,022,140	\$(259,984)	\$ 4,922,635	\$ (884,099)
Mutual funds	2,890,430	(168,724)	154,718	(98,577)	3,045,148	(267,301)
Government securities	198,760	(2,109)	67,175	(1,063)	265,935	(3,172)
Total	<u><u>\$ 6,989,685</u></u>	<u><u>\$(794,948)</u></u>	<u><u>\$ 1,244,033</u></u>	<u><u>\$(359,624)</u></u>	<u><u>\$ 8,233,718</u></u>	<u><u>\$ (1,154,572)</u></u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 4 - Investments (continued)

In 2011, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2010:

	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Equities	\$ 1,137,867	\$(141,418)	\$ 561,495	\$(182,330)	\$ 1,699,362	\$ (323,748)
Mutual funds	147,344	(10,430)	130,465	(82,335)	277,809	(92,765)
Government securities	271,151	(3,862)	64,487	(1,075)	335,638	(4,937)
Total	<u>\$ 1,556,362</u>	<u>\$(155,710)</u>	<u>\$ 756,447</u>	<u>\$(265,740)</u>	<u>\$ 2,312,809</u>	<u>\$ (421,450)</u>

In 2010, none of the investments that were in an unrealized loss position were considered to be other than temporarily impaired.

Note 5 - Fair Value Measurements

FASB ASC 820-10, "Fair Value Measurements and Disclosures", provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
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Note 5 - Fair Value Measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of September 30, 2011 and 2010 by the valuation hierarchy:

2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,768,481	\$ -	\$ -	\$ 2,768,481
Investments:				
Money market funds	4,335,943	-	-	4,335,943
Equities	5,329,862	-	-	5,329,862
Mutual funds	4,643,038	-	-	4,643,038
Government securities	-	3,436,352	-	3,436,352
	<u>14,308,843</u>	<u>3,436,352</u>	<u>-</u>	<u>17,745,195</u>
Funds held under bond agreements	2,177,972	-	-	2,177,972
Beneficial interest in trusts	<u>-</u>	<u>-</u>	<u>3,774,294</u>	<u>3,774,294</u>
Total	<u>\$ 19,255,296</u>	<u>\$ 3,436,352</u>	<u>\$ 3,774,294</u>	<u>\$ 26,465,942</u>
2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,007,201	\$ -	\$ -	\$ 8,007,201
Investments:				
Money market funds	3,664,738	-	-	3,664,738
Equities	5,644,039	-	-	5,644,039
Mutual funds	4,316,338	-	-	4,316,338
Government securities	-	2,679,456	-	2,679,456
Certificates of deposit	-	1,472,000	-	1,472,000
	<u>13,625,115</u>	<u>4,151,456</u>	<u>-</u>	<u>17,776,571</u>
Funds held under bond agreements	1,979,222	-	-	1,979,222
Beneficial interest in trusts	<u>-</u>	<u>-</u>	<u>3,905,024</u>	<u>3,905,024</u>
Total	<u>\$ 23,611,538</u>	<u>\$ 4,151,456</u>	<u>\$ 3,905,024</u>	<u>\$ 31,668,018</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements (continued)

A rollforward as of September 30, 2011 and 2010 of the amounts classified as Level 3 investments within the fair value hierarchy is as follows:

<u>2011</u>	<u>Beneficial Interest in Trusts</u>
Balance as of October 1, 2010	\$ 3,905,024
Net change in market value	(29,858)
Distributions	<u>(100,872)</u>
Balance as of September 30, 2011	<u><u>\$ 3,774,294</u></u>
<u>2010</u>	<u>Beneficial Interest in Trusts</u>
Balance as of October 1, 2009	\$ 3,734,376
Net change in market value	261,025
Distributions	<u>(90,377)</u>
Balance as of September 30, 2010	<u><u>\$ 3,905,024</u></u>

The Hospital's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Hospital uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to cash and cash equivalents, equities, money market funds and mutual funds.

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). Securities typically priced using Level 2 inputs include government securities, corporate bonds and certificates of deposit.

Assets and liabilities that are valued using significant unobservable inputs, such as extrapolated data, proprietary models, or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Hospital's beneficial interest in trusts are classified within the Level 3 classification. The value of the Hospital's assets is based on total fund values and the Hospital's corresponding beneficiary percentage.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 5 - Fair Value Measurements (continued)

As of September 30, 2011 and 2010, the Hospital's other financial instruments included certificates of deposit, accounts receivable, accounts payable and accrued expenses, estimated third-party payer settlements and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Note 6 - Net Assets

Net assets that are temporarily restricted as of September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Beneficial trusts	\$ 1,328,421	\$ 1,372,047
Endowments restricted for health care services	<u>3,260,902</u>	<u>1,878,653</u>
Total	<u>\$ 4,589,323</u>	<u>\$ 3,250,700</u>

Net assets that are permanently restricted as of September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Beneficial trusts	\$ 2,445,873	\$ 2,532,977
Endowments held in perpetuity with income restricted for operations	<u>1,184,348</u>	<u>1,184,348</u>
Total	<u>\$ 3,630,221</u>	<u>\$ 3,717,325</u>

The Hospital's endowment consists of multiple funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The Hospital has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital during its annual budgeting process.

The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment policies of the Hospital.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 6 - Net Assets (continued)

Changes in endowment net assets for the years ended September 30, 2011 and 2010 are as follows:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2010	\$ 6,533,539	\$ 1,878,653	\$ 1,184,348	\$ 9,596,540
Investment return:				
Investment income	297,561	-	-	297,561
Net change in market value	(445,674)	17,450	-	(428,224)
Investment fees	(75,932)	-	-	(75,932)
Contributions	-	1,894,638	-	1,894,638
Expenditures	-	(529,839)	-	(529,839)
Balance at September 30, 2011	<u>\$ 6,309,494</u>	<u>\$ 3,260,902</u>	<u>\$ 1,184,348</u>	<u>\$ 10,754,744</u>
2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2009	\$ 5,628,100	\$ 2,427,827	\$ 1,184,348	\$ 9,240,275
Investment return:				
Investment income	337,211	-	-	337,211
Net change in market value	631,127	85,793	-	716,920
Investment fees	(62,899)	-	-	(62,899)
Contributions	-	382,611	-	382,611
Expenditures	-	(1,017,578)	-	(1,017,578)
Balance at September 30, 2010	<u>\$ 6,533,539</u>	<u>\$ 1,878,653</u>	<u>\$ 1,184,348</u>	<u>\$ 9,596,540</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2011 and 2010, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters - The Hospital's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Spending Policy - During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital's board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 6 - Net Assets (continued)

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 7 - Long-Term Debt

The Hospital has entered into a financing arrangement with the State of Connecticut Health and Educational Facilities Authority (the Authority) under a Trust Indenture for the financing of a facility renovation project. The Authority sold \$19,150,000 of Series A, fixed rate, insured revenue bonds, maturing serially from 1996 through 2026 with an average annual interest rate of approximately 5.2%. The balance of this debt as of September 30, 2011 and 2010 was \$13,060,000 and \$13,620,000, respectively. Under the terms of the financing arrangement, the proceeds of the Series A revenue bonds were loaned to the Hospital by the Authority. Pursuant to the loan agreements, the Hospital is required to provide amounts sufficient to enable the Authority to pay the principal and interest on the bonds. The borrowings under the Series A revenue bonds are secured by the pledge of gross receipts of the Hospital, as defined.

The debt is insured by a municipal bond insurance policy. Included within the debt agreements are financial covenants for the benefit of the bond insurer. These covenants include a minimum operating margin requirement of 1.0% and a minimum debt service coverage ratio of 2.0 to 1.0 for the obligated group, which does not include Physician Services. For the years ending September 30, 2011 and 2010, the Hospital was in compliance with these requirements. For the year ending September 30, 2008, the Hospital was not in compliance with these requirements. This violation required the Hospital to deposit funds into a special reserve fund in accordance with the calculation included within the master trust indenture agreement. The funds will be released to the Hospital in three equal annual installments after the Hospital has satisfied the covenants for a period of three consecutive years. The special reserve fund of \$454,055 and 453,919, as of September 30, 2011 and 2010, respectively, has been included within the assets whose use is limited on the accompanying consolidated balance sheets. The Hospital has other covenants related to the Authority loan and trust indenture documents, including limitations on new indebtedness and a minimum debt service coverage ratio requirement of 1.35 to 1.0. The Hospital was in compliance with these covenants for 2011 and 2010.

On August 26, 2010, the Hospital entered into a Construction Mortgage Note (the Note) with a local bank to finance the construction of a medical office building in Plainfield, Connecticut. Under the terms of the Note, the Hospital can borrow up to \$5.0 million during the construction period. Principal payments on the Note began on September 1, 2011 based on a 20-year amortization period with a final installment of the remaining balance due on August 1, 2021. During the construction period, the Note bore interest at the prime rate plus 1.00% (4.25% at September 30, 2010). Upon completion of the construction period, the Note will bear interest at 3.50% above the weekly average yield of United States Treasury Securities (3.60% at September 30, 2011). The balance on the Note, as of September 30, 2011 and 2010, amounted to \$4,955,939 and \$1,631,107.

The Hospital has a line of credit agreement with Citizens National Bank for \$2.5 million. The line matures on November 1, 2011, and bears interest at the prime rate minus one half a percentage point (2.75% as of September 30, 2011 and 2010). Borrowings on the line are secured by certain Hospital equipment. There were \$340,000 of borrowings against the line as of September 30, 2011. There were no borrowings against the line as of September 30, 2010.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 7 - Long-Term Debt (continued)

Interest paid during fiscal year 2011 and 2010 amounted to \$947,693 and \$767,541, respectively.

Maturities of long-term debt for the five years subsequent to September 30, 2011 and thereafter are as follows:

	CHEFA	Bank Note	Total
2012	\$ 590,000	\$ 162,175	\$ 752,175
2013	620,000	169,204	789,204
2014	655,000	176,537	831,537
2015	690,000	184,187	874,187
2016	725,000	192,170	917,170
Thereafter	9,780,000	4,071,666	13,851,666
Total	<u>\$ 13,060,000</u>	<u>\$ 4,955,939</u>	<u>\$ 18,015,939</u>

Note 8 - Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering all employees who have worked at least 1,000 hours during the year. Effective January 1, 2006, the Hospital amended the Plan to exclude all new hires after December 31, 2005. Effective September 30, 2008, the Plan was frozen and the participants are no longer accruing benefits. The benefits were based on years of service and the employee's compensation. The Hospital's funding policy is to contribute amounts sufficient to cover benefits to be paid as required by Employee Retirement Income Security Act funding standards.

Significant disclosures relating to the Plan as of September 30, 2011 and 2010 are as follows:

	2011	2010
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 91,457,387	\$ 83,418,300
Interest cost	4,487,775	4,544,665
Actuarial (gain) loss	(2,194,210)	6,823,095
Benefits paid	(3,645,018)	(3,328,673)
Benefit obligations at end of year	<u>\$ 90,105,934</u>	<u>\$ 91,457,387</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 59,270,600	\$ 57,154,218
Actual return on plan assets	(781,274)	4,445,055
Employer contributions	2,099,798	1,000,000
Benefits paid	(3,645,018)	(3,328,673)
Fair value of plan assets at end of year	<u>\$ 56,944,106</u>	<u>\$ 59,270,600</u>
Accrued pension liability:		
Unfunded status	<u>\$ (33,161,828)</u>	<u>\$ (32,186,787)</u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Pension Plan (continued)

	<u>2011</u>	<u>2010</u>
Components of net periodic benefit cost (income):		
Interest cost	\$ 4,487,775	\$ 4,544,665
Expected return on plan assets	(5,100,648)	(5,240,643)
Recognized net loss	2,543,850	1,599,122
Net periodic benefit cost	<u>\$ 1,930,977</u>	<u>\$ 903,144</u>

Assumptions:

Weighted-average assumptions used to determine benefit obligations:

Discount rate	5.25%	5.00%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost (income):

Discount rate	5.00%	5.55%
Expected long-term return on plan assets	8.00%	8.00%

Amounts recorded in unrestricted net assets as of September 30, 2011 and 2010, not yet amortized as components of net periodic benefit costs, are as follows:

	<u>2011</u>	<u>2010</u>
Unamortized actuarial loss	\$ 41,027,464	\$ 39,883,602
Amount recognized as a reduction in unrestricted net assets	<u>\$ 41,027,464</u>	<u>\$ 39,883,602</u>

The amortization of the above items expected to be recognized in net periodic benefit costs are approximately \$2.8 million and \$2.5 million for the years ending September 30, 2012 and 2011, respectively.

Plan assets are invested in an insurance contract with Prudential and other investments with Merrill Lynch.

The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and the correlation between the returns of various asset classes.

The asset mix was determined by evaluating the expected return against the Plan's long-term objectives. Performance is monitored on a monthly basis and the portfolio is rebalanced back to target levels to ensure the targets are within range. The investment policy describes which securities are allowed in the portfolios and the financial objectives of the Plan with which the Investment Committee of the Board of Directors oversees. The Investment Committee monitors the investment performance quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 8 - Pension Plan (continued)

The fair values of the Hospital's pension plan assets by asset category, are as follows, for the years ending September 30, 2011 and 2010:

2011	Level 1	Level 2	Level 3	Total
Money market securities	\$ 1,577,585	\$ -	\$ -	\$ 1,577,585
Government securities	-	4,571,515	-	4,571,515
Corporate bonds	-	2,130,051	-	2,130,051
Equity securities	35,055,650	-	-	35,055,650
Guaranteed investment contract	-	-	13,609,305	13,609,305
Total	<u>\$ 36,633,235</u>	<u>\$ 6,701,566</u>	<u>\$ 13,609,305</u>	<u>\$ 56,944,106</u>
2010	Level 1	Level 2	Level 3	Total
Money market securities	\$ 1,817,654	\$ -	\$ -	\$ 1,817,654
Government securities	-	4,619,102	-	4,619,102
Corporate bonds	-	2,866,221	-	2,866,221
Equity securities	36,822,895	-	-	36,822,895
Guaranteed investment contract	-	-	13,144,728	13,144,728
Total	<u>\$ 38,640,549</u>	<u>\$ 7,485,323</u>	<u>\$ 13,144,728</u>	<u>\$ 59,270,600</u>

During the year ending September 30, 2011, the value of the guaranteed investment contract decreased for disbursements of \$3,708,819 and increased for income and Hospital contributions of \$4,173,396. During the year ending September 30, 2010, the value decreased for disbursements of \$3,234,471 and increased for income and Hospital contributions of \$4,724,211.

Contributions - The Hospital expects to contribute \$3,662,028 to its pension plan during the fiscal year beginning October 1, 2011.

Estimated future benefit payments - The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

2012	\$ 3,979,000
2013	\$ 4,252,000
2014	\$ 4,499,000
2015	\$ 4,737,000
2016	\$ 4,969,000
Years 2017-2022	\$ 28,701,000

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
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Note 8 - Pension Plan (continued)

The Hospital also has established a defined contribution benefit plan, which became effective January 1, 2006. Substantially all full-time employees are eligible to participate in the new plan. Employees may contribute up to 50% of their compensation into the defined contribution plan subject to Internal Revenue Code limitations and the Hospital contributes 3% of each eligible participant's gross earnings. In addition, the Hospital will contribute an additional 3% for participants that are fifty-five years of age or fifty years of age with 10 years of vesting service. The Hospital made employer contributions to the defined contribution plan totaling \$1,748,524 in 2011 and \$1,668,919 in 2010. Employees become vested in the Hospital's contributions over three years. The portion of the employer contributions unvested upon termination of an employee are forfeited and used to reduce future contributions made by the Hospital on a dollar-for-dollar basis.

The Hospital also has established a 403(b) plan covering all full time and part time employees of the Hospital. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. Currently, the Hospital does not contribute to this plan.

Note 9 - Operating Leases

The Hospital is party to various operating lease agreements and subleases space to various tenants. Future minimum lease payments by fiscal year as of September 30, 2011 are as follows:

2011	\$ 522,749
2012	522,749
2013	504,101
2014	266,165
2015	<u>248,147</u>
Total	<u><u>\$ 2,063,911</u></u>

Note 10 - Property, Plant and Equipment

Property, plant and equipment consist of the following as of September 30, 2011:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Land and land improvements	\$ 3,526,800	\$ -	\$ -	\$ 3,526,800
Buildings and improvements	63,964,917	-	-	63,964,917
Fixed equipment	812,679	-	-	812,679
Movable equipment	30,053,467	86,760	219,163	30,359,390
Construction in progress (estimated cost to complete - \$1,605,204)	2,510,153	-	-	2,510,153
	<u>100,868,016</u>	<u>86,760</u>	<u>219,163</u>	<u>101,173,939</u>
Less: accumulated depreciation	<u>(64,431,275)</u>	<u>(65,729)</u>	<u>(66,942)</u>	<u>(64,563,946)</u>
Total	<u><u>\$ 36,436,741</u></u>	<u><u>\$ 21,031</u></u>	<u><u>\$ 152,221</u></u>	<u><u>\$ 36,609,993</u></u>

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 10 - Property, Plant and Equipment (continued)

Property, plant and equipment consist of the following as of September 30, 2010:

	<u>Day Kimball Hospital</u>	<u>Homemakers</u>	<u>Physician Services</u>	<u>Total</u>
Land and land improvements	\$ 3,526,800	\$ -	\$ -	\$ 3,526,800
Buildings and improvements	52,100,507	-	-	52,100,507
Fixed equipment	812,679	-	-	812,679
Movable equipment	27,956,428	76,890	153,547	28,186,865
Construction in progress (estimated cost to complete - \$6,487,816)	7,373,183	-	-	7,373,183
	<u>91,769,597</u>	<u>76,890</u>	<u>153,547</u>	<u>92,000,034</u>
Less: accumulated depreciation	<u>(59,922,177)</u>	<u>(55,142)</u>	<u>(25,246)</u>	<u>(60,002,565)</u>
Total	<u><u>\$ 31,847,420</u></u>	<u><u>\$ 21,748</u></u>	<u><u>\$ 128,301</u></u>	<u><u>\$ 31,997,469</u></u>

Note 11 - Medical Malpractice

The Hospital maintains claims made professional and general liability insurance to cover malpractice and general liability exposures. The current insurance coverage does not have a deductible amount. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital believes that it has the ability and intent to continue purchasing such claims-made insurance policies. In addition, the Hospital has estimated and recorded the ultimate costs, if any, of the settlement of all incurred but not reported claims.

Note 12 - Risks and Uncertainties

The Hospital is a party to various claims and lawsuits incidental to its business. Management believes that these matters will not have a material adverse effect on its consolidated financial position of the Hospital.

The Hospital and the Hospital's defined benefit pension plan invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

Note 13 - Functional Expenses

The Hospital, Homemakers and Physician Services provide general health care services to residents within their geographic location. General and administrative expenses were approximately 19% of total expenses in 2011 and 2010.

Day Kimball Healthcare, Inc.
Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2011 and 2010

Note 14 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers as of September 30, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	32%	25%
Medicaid	19%	16%
Blue Cross	15%	15%
Self pay	15%	23%
HMO and commercial	18%	17%
Other	1%	4%
	<u>100%</u>	<u>100%</u>
Total	<u>100%</u>	<u>100%</u>

Note 15 - Pledges Receivable

Pledges receivable represent unconditional promises to give for an ongoing capital campaign for an expansion to the emergency department of the Hospital. The following pledges are due to the Hospital as of September 30, 2011:

Due within one year	\$ 265,367
Due in one to five years	908,541
	<u>1,173,908</u>
Less: allowance for uncollectible pledges	(58,695)
	<u>(58,695)</u>
Total	<u>\$ 1,115,213</u>

The pledges have been discounted by \$51,258 to arrive at present value in the above table.

Note 16 - Related Party Transactions

As of September 30, 2011 and 2010, the Hospital has recorded an investment in Physician Services of \$5,049,538 and \$2,853,000, respectively, which represents the cumulative amount of capital that the Hospital has invested in Physician Services. In addition, as of September 30, 2011 and 2010, Physician Services owes the Hospital \$2,653,820 and \$862,345, respectively, of costs associated with the management, accounting and oversight services.

As of September 30, 2011 and 2010, Homemakers owes the Hospital \$2,691 and \$4,486, respectively.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2011

Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current assets:					
Cash and cash equivalents	\$ 2,168,500	\$ 427,364	\$ 172,617	\$ -	\$ 2,768,481
Certificates of deposit	431,617	-	-	-	431,617
Short-term investments	8,105,664	-	-	-	8,105,664
Accounts receivable (less allowance for doubtful accounts of \$3,482,663)	11,823,463	187,048	847,173	-	12,857,684
Due from affiliates	2,656,511	-	-	(2,656,511)	-
Accounts receivable, other	560,121	-	-	-	560,121
Pledges receivable, current portion	252,099	-	-	-	252,099
Inventories and prepaid expenses	2,339,159	8,807	109,960	-	2,457,926
Assets whose use is limited:					
Funds held under bond indenture agreement	431,679	-	-	-	431,679
Total current assets	28,768,813	623,219	1,129,750	(2,656,511)	27,865,271
Assets whose use is limited:					
Funds held under bond indenture agreement	1,292,238	-	-	-	1,292,238
Funds held under bond reserve fund	454,055	-	-	-	454,055
Pledges receivable, net of current portion	863,114	-	-	-	863,114
Funds held in trust by others	3,774,294	-	-	-	3,774,294
Donor restricted investments	3,326,302	3,735	-	-	3,330,037
Board restricted investments	6,220,428	89,066	-	-	6,309,494
	15,930,431	92,801	-	-	16,023,232
Investments in real estate	263,828	-	-	-	263,828
Investment in Physician Services of Northeast Connecticut, LLC	5,049,538	-	-	(5,049,538)	-
Deferred financing costs, net	618,684	-	-	-	618,684
Property, plant and equipment, net	36,436,741	21,031	152,221	-	36,609,993
Total assets	\$ 87,068,035	\$ 737,051	\$ 1,281,971	\$ (7,706,049)	\$ 81,381,008
Liabilities and Net Assets					
Current liabilities:					
Line of credit	\$ 340,000	\$ -	\$ -	\$ -	\$ 340,000
Accounts payable	4,934,781	33,985	174,578	-	5,143,344
Salaries and wages payable	1,154,981	-	280,752	-	1,435,733
Employee benefits payable	2,897,738	-	258,529	-	3,156,267
Due to third-party payers	165,119	-	-	-	165,119
Other liabilities	1,639,115	-	-	-	1,639,115
Due to affiliates	-	2,691	2,653,820	(2,656,511)	-
Current portion of pension liability	3,662,028	-	-	-	3,662,028
Current portion of long-term debt	752,175	-	-	-	752,175
Total current liabilities	15,545,937	36,676	3,367,679	(2,656,511)	16,293,781
Long-term debt, less current portion	17,263,764	-	-	-	17,263,764
Pension and other liabilities	29,499,800	-	-	-	29,499,800
Total liabilities	62,309,501	36,676	3,367,679	(2,656,511)	63,057,345
Net assets:					
Unrestricted	16,542,725	696,640	(2,085,708)	(5,049,538)	10,104,119
Temporarily restricted	4,585,588	3,735	-	-	4,589,323
Permanently restricted	3,630,221	-	-	-	3,630,221
Total net assets	24,758,534	700,375	(2,085,708)	(5,049,538)	18,323,663
Total liabilities and net assets	\$ 87,068,035	\$ 737,051	\$ 1,281,971	\$ (7,706,049)	\$ 81,381,008

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations
For the Year Ended September 30, 2011

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Operating revenues:					
Net revenues from					
services to patients	\$ 106,400,269	\$ 1,446,272	\$ 7,310,778	\$ -	\$ 115,157,319
Other operating revenues	2,907,586	1,266	314,726	-	3,223,578
Grant income	766,052	183,814	-	-	949,866
Assets released from restrictions					
for operations	320,636	-	-	-	320,636
Total operating revenues	<u>110,394,543</u>	<u>1,631,352</u>	<u>7,625,504</u>	<u>-</u>	<u>119,651,399</u>
Operating expenses:					
Ancillary and physician services	30,547,101	1,416,826	9,694,923	-	41,658,850
Nursing services	23,567,308	-	-	-	23,567,308
Employee benefits and insurance	18,336,341	134,142	1,333,052	-	19,803,535
Fiscal services	8,772,638	-	-	-	8,772,638
General services	7,468,087	-	-	-	7,468,087
Administrative services	5,568,498	-	-	-	5,568,498
Homecare	5,196,012	-	-	-	5,196,012
Depreciation	4,550,361	10,936	46,831	-	4,608,128
Bad debts	3,435,180	9,250	83,919	-	3,528,349
Interest and amortization	995,291	-	-	-	995,291
Total operating expenses	<u>108,436,817</u>	<u>1,571,154</u>	<u>11,158,725</u>	<u>-</u>	<u>121,166,696</u>
Gain (loss) from operations	1,957,726	60,198	(3,533,221)	-	(1,515,297)
Non-operating gains	<u>1,333,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,333,404</u>
Excess (deficiency) of revenues over expenses	<u>\$ 3,291,130</u>	<u>\$ 60,198</u>	<u>\$ (3,533,221)</u>	<u>\$ -</u>	<u>\$ (181,893)</u>

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Balance Sheet
September 30, 2010

Assets	Day Kimball Hospital	Day Kimball Homemakers, Inc.	Physician Services of NE CT, LLC	Eliminations	Day Kimball Healthcare, Inc.
Current assets:					
Cash and cash equivalents	\$ 7,593,483	\$ 386,813	\$ 26,905	\$ -	\$ 8,007,201
Certificates of deposit	125,000	-	-	-	125,000
Short-term investments	8,174,896	-	-	-	8,174,896
Accounts receivable (less allowance for doubtful accounts of \$4,140,663)	10,144,136	196,599	378,501	-	10,719,236
Due from affiliates	866,831	-	-	(866,831)	-
Accounts receivable, other	75,452	-	-	-	75,452
Inventories and prepaid expenses	2,031,106	1,041	71,299	-	2,103,446
Assets whose use is limited:					
Funds held under bond indenture agreement	233,000	-	-	-	233,000
Total current assets	29,243,904	584,453	476,705	(866,831)	29,438,231
Assets whose use is limited:					
Funds held under bond indenture agreement	1,292,303	-	-	-	1,292,303
Funds held under bond reserve fund	453,919	-	-	-	453,919
Funds held in trust by others	3,905,024	-	-	-	3,905,024
Donor restricted investments	3,067,177	959	-	-	3,068,136
Board restricted investments	6,444,584	88,955	-	-	6,533,539
	15,163,007	89,914	-	-	15,252,921
Investments in real estate	277,565	-	-	-	277,565
Investment in Physician Services of Northeast Connecticut, LLC	2,853,000	-	-	(2,853,000)	-
Deferred financing costs, net	696,283	-	-	-	696,283
Property, plant and equipment, net	31,847,420	21,748	128,301	-	31,997,469
Total assets	\$ 80,081,179	\$ 696,115	\$ 605,006	\$ (3,719,831)	\$ 77,662,469
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 3,164,793	\$ 54,228	\$ 116,272	\$ -	\$ 3,335,293
Salaries and wages payable	885,149	-	131,167	-	1,016,316
Employee benefits payable	3,226,045	-	244,247	-	3,470,292
Due to third-party payers	1,308,122	-	-	-	1,308,122
Other liabilities	1,885,215	-	-	-	1,885,215
Due to affiliates	-	4,486	862,345	(866,831)	-
Current portion of pension liability	3,306,179	-	-	-	3,306,179
Current portion of long-term debt	560,000	-	-	-	560,000
Total current liabilities	14,335,503	58,714	1,354,031	(866,831)	14,881,417
Long-term debt, less current portion	14,691,107	-	-	-	14,691,107
Pension and other liabilities	28,880,608	-	-	-	28,880,608
Total liabilities	57,907,218	58,714	1,354,031	(866,831)	58,453,132
Net assets:					
Unrestricted	15,206,895	636,442	(749,025)	(2,853,000)	12,241,312
Temporarily restricted	3,249,741	959	-	-	3,250,700
Permanently restricted	3,717,325	-	-	-	3,717,325
Total net assets	22,173,961	637,401	(749,025)	(2,853,000)	19,209,337
Total liabilities and net assets	\$ 80,081,179	\$ 696,115	\$ 605,006	\$ (3,719,831)	\$ 77,662,469

See accompanying Independent Auditors' Report.

Day Kimball Healthcare, Inc.
Consolidating Statement of Operations
For the Year Ended September 30, 2010

	<u>Day Kimball Hospital</u>	<u>Day Kimball Homemakers, Inc.</u>	<u>Physician Services of NE CT, LLC</u>	<u>Eliminations</u>	<u>Day Kimball Healthcare, Inc.</u>
Operating revenues:					
Net revenues from					
services to patients	\$ 100,651,954	\$ 1,344,972	\$ 5,037,459	\$ -	\$ 107,034,385
Other operating revenues	2,176,468	1,351	16,174	-	2,193,993
Grant income	795,559	189,980	-	-	985,539
Assets released from restrictions					
for operations	307,931	5,344	-	-	313,275
Total operating revenues	<u>103,931,912</u>	<u>1,541,647</u>	<u>5,053,633</u>	<u>-</u>	<u>110,527,192</u>
Operating expenses:					
Ancillary and physician services	28,136,046	1,359,695	6,698,524	-	36,194,265
Nursing services	22,317,333	-	-	-	22,317,333
Employee benefits and insurance	16,118,154	149,689	736,424	-	17,004,267
Fiscal services	8,066,842	-	-	-	8,066,842
General services	7,128,089	-	-	-	7,128,089
Homecare	5,047,930	-	-	-	5,047,930
Administrative services	4,952,112	-	-	-	4,952,112
Depreciation	4,418,719	13,218	23,023	-	4,454,960
Bad debts	3,376,899	940	2,195	-	3,380,034
Interest and amortization	849,815	-	-	-	849,815
Total operating expenses	<u>100,411,939</u>	<u>1,523,542</u>	<u>7,460,166</u>	<u>-</u>	<u>109,395,647</u>
Gain (loss) from operations	3,519,973	18,105	(2,406,533)	-	1,131,545
Non-operating losses	<u>607,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>607,272</u>
Excess (deficiency) of revenues over expenses	<u>\$ 4,127,245</u>	<u>\$ 18,105</u>	<u>\$ (2,406,533)</u>	<u>\$ -</u>	<u>\$ 1,738,817</u>

See accompanying Independent Auditors' Report.